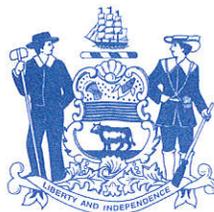


REPORT ON EXAMINATION
OF THE
INSURANCE PLACEMENT FACILITY OF DELAWARE
AS OF
DECEMBER 31, 2010

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 of the

INSURANCE PLACEMENT FACILITY OF DELAWARE

is a true and correct copy of the document filed with this Department.

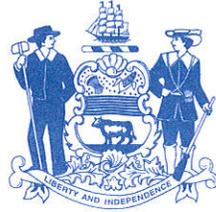
Attest By: *Grant Biddle*

Date: 4 Jun 2012



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 4th day of June, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner



REPORT ON EXAMINATION
OF THE
INSURANCE PLACEMENT FACILITY OF DELAWARE
AS OF
DECEMBER 31, 2010

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 4th day of June, 2012

TABLE OF CONTENTS

<u>SALUTATION</u>	1
SCOPE.....	1
<u>SUMMARY OF SIGNIFICANT FINDINGS</u>	2
<u>SUBSEQUENT EVENTS</u>	2
COMPANY HISTORY.....	3
CORPORATE RECORDS.....	3
<u>AIMS AND PURPOSES</u>	3
<u>MEMBERSHIP</u>	4
<u>MANAGEMENT AND CONTROL</u>	5
<u>SERVICE AGREEMENT</u>	6
<u>FIDELITY BONDS AND OTHER INSURANCE</u>	7
<u>PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS</u>	7
<u>TERRITORY AND PLAN OF OPERATION</u>	8
<u>GROWTH OF THE COMPANY</u>	10
<u>ACCOUNTS AND RECORDS</u>	10
PARTICIPATION AND ASSESSMENTS.....	10
<u>FINANCIAL STATEMENTS</u>	12
<u>ASSETS</u>	12
<u>LIABILITIES, CAPITAL & SURPLUS</u>	13
<u>STATEMENT OF INCOME</u>	14
<u>RECONCILIATION OF SURPLUS SINCE THE PREVIOUS EXAMINATION</u>	15
<u>ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS</u>	15
<u>NOTES TO THE FINANCIAL STATEMENTS</u>	15
<u>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS</u>	17
<u>SUMMARY OF RECOMMENDATIONS</u>	17
<u>CONCLUSION</u>	17

SALUTATION

April 18, 2012

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 11.037 an examination has been made of the affairs, financial condition and management of the

INSURANCE PLACEMENT FACILITY OF DELAWARE

hereinafter referred to as “Facility”, “Fair Plan” or “IPFD”. The examination was conducted at 530 Walnut Street, Philadelphia, Pennsylvania. The examination report thereon is respectfully submitted.

EXAMINATION SCOPE

The last examination was as of December 31, 2005. This examination covered the period of January 1, 2006, through December 31, 2010, and encompasses a general review of transactions during the period, the Facility’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Facility at December 31, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Facility by obtaining information about the Facility including corporate governance, identifying and assessing inherent risks within the Facility and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

During the course of this examination, consideration was given to work performed by the Facility's external auditing firm, WeiserMazars, LLP. Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

The examination is making no financial adjustments and is proposing two recommendations.

SUBSEQUENT EVENTS

In 2011, the Facility incurred an underwriting loss of \$395,233 and reported Surplus of \$(182,389) at December 31, 2011.

COMPANY HISTORY

The Facility, more commonly known as the “Fair Plan”, was created by an act of the legislature of the State of Delaware in 1968. “The Delaware FAIR Plan Act” mandates that basic property insurance against fire and other perils be made available for all residential and business properties located in the State of Delaware.

The Facility operates as an unincorporated non-profit association. IFPD shares office space, management and employees with the Insurance Placement Facility of Pennsylvania and the West Virginia Essential Property Insurance Association.

CORPORATE RECORDS

The Constitution and Bylaws of the Facility were amended in 2009 to change the title of the chief executive officer of IPFD from General Manager to President. This was the only change to the Constitution and Bylaws during the period under examination.

The recorded minutes of the member companies and Board of Directors (Board) were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Facility transactions and events.

AIMS AND PURPOSES

The Aims and Purposes of the Facility shall be to provide basic property insurance so as to effectuate the purposes of the Delaware FAIR Plan Act, as amended:

The Facility Shall attempt:

- To encourage stability in the property insurance market for property located in the State of Delaware;

- To encourage, with the least possible administrative expense and detail, access to and availability of basic property insurance as defined in the FAIR Plan Act;
- To encourage the improvement of the condition of properties located in the State of Delaware;
- To provide for the formulation and administration by the Insurance Placement Facility of Delaware of a plan assuring fair access to insurance requirements in order that no property shall be denied basic property insurance through the normal insurance market provided by the private property insurers except after a physical inspection of such property and a fair evaluation of its individual underwriting characteristics;
- To publicize the purposes and procedures of the Plan to the end that no one may fail to seek its assistance through ignorance thereof;
- To provide for the formulation and administration of the Facility and of procedures and rules, whereby property insurers shall share equitably the responsibility for insuring insurable property for which basic property insurance cannot be obtained through the normal insurance market; and
- To enable participating insurers to comply with the Delaware FAIR Plan Act.

MEMBERSHIP

Each insurer, which is authorized to write and is engaged in writing, within the State of Delaware on a direct basis, basic property insurance or any component thereof

contained in a multiple peril policy, shall be a member of the Facility. Other insurers may become members, provided they are eligible unlicensed insurers.

MANAGEMENT AND CONTROL

The Facility shall be governed by a Board of Directors, consisting of eleven members. Membership of the Board shall be by company; each member insurance company elected to the Board shall designate a person to represent it at all meetings of the Board, and shall file such designate with the Facility's President. Such member company shall have the right to name an alternate to act on its behalf.

Members of the Board of Directors shall be elected at the annual meeting of the Facility and shall serve for a term of one year. The Directors serving at December 31, 2010 were as follows:

<u>Company</u>	<u>Designate</u>
The Harleysville Insurance Companies	Susan Erney, Chairperson
State Farm Insurance Companies	Marci Thomas, Vice Chairperson
Nationwide Mutual Insurance Company	Julien Alexander
The Travelers Companies, Inc.	Kevin Curry
ACE USA	John Fillippo
Allstate Insurance Company	Nicole Ford
Donegal Insurance Companies	Richard Kelley
The Hartford	William Martin
USAA	Corise Morrison
CNA	Patricia Quinn
Liberty Mutual Insurance Company	Michael Grove

The Board of Directors has four standing committees:

Executive/Finance/Audit
Accounting/Investment/Statistical
Claims
Underwriting

The President of the Facility is appointed by the Board of Directors and is the only officer of the Company. John Ogle was appointed President in April, 2010 and was re-appointed in 2011.

SERVICE AGREEMENT

IFPD shares office space, management and employees with the Insurance Placement Facility of Pennsylvania (IPFP) and the West Virginia Essential Property Insurance Association.

The Facility pays a portion of such joint expenses based on allocation methods contained in a Service Agreement effective September 23, 1994, that remained unchanged during the period under examination. The Agreement provides for the following:

- IPFP will furnish such management and administrative personnel, services and facilities as may be required by IPFD for the proper conduct of its affairs.
- IPFP will maintain appropriate records of all operating costs and expenses.
- All direct operating costs, meaning costs which were incurred solely in the operation of and for the benefit of one Facility, will be allocated to the incurring Facility.
- IPFD will reimburse IPFP for its portion of total operating costs on the following basis:

- Unallocated claim costs shall be apportioned by applying the ratio of the total number of claims reported to the total unallocated claims costs excluding direct operating costs above.
- All operating costs, except the direct, shall be apportioned by applying the ratio of the total number of IPFD applications to the total number of IPFD and IPFP applications, to the total of such other operating costs incurred by IPFP.

FIDELITY BONDS AND OTHER INSURANCE

IPFD is included in the coverages maintained by the Insurance Placement Facility of Pennsylvania (IPFP). The examination noted that IPFP maintained fidelity bond coverage, which adequately covered the suggested minimum amount of coverage for the combined facilities as recommended by the NAIC. IPFP also maintained Property-Casualty, Auto, Umbrella and Workers Compensation insurance coverages.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Facility, in conjunction with IPFP, offers its active and retired employees health insurance and offers its employees a defined benefit plan. For the medical coverage offered to retired employees (reported on the Annual Statement as Post Retirement Benefits), the Fair Plan has not dedicated any assets, rather a liability is accrued on the balance sheet. At year end 2010, the total liability was \$929,198. IPFD's share of that liability was \$69,219. For the Defined Benefit pension plan, the Fair Plan has dedicated assets. An additional minimum pension liability (AML) is required when the actuarial present value of the accumulated plan benefit obligation exceeds plan assets

and accrued pension liabilities. As of December 31, 2010, the pension plan required an AML of \$1,960,140. IPFD's share of that liability was \$147,990.

TERRITORY AND PLAN OF OPERATION

The Facility writes fire, extended coverage, vandalism and malicious mischief insurance in Delaware, using a standard fire policy. No liability coverage is offered. Reinsurance is neither assumed nor ceded.

Of the 2,146 policies issued by the Facility in 2010, 92 were on commercial risks. The other risks are termed dwelling by the Facility. The Facility uses uncharged ISO Loss costs for its rates in Delaware. IPFD publishes its Manual of Procedures which is available on the Facility's website. This document includes IPFD's underwriting standards. At the time of the 2005 examination, the Facility's maximum underwriting limits were \$200,000 for occupied dwelling properties and \$750,000 for commercial protected properties. Effective December 11, 2006, IPFD raised its maximum underwriting limits to \$500,000 for occupied dwelling properties. The maximum underwriting limits for commercial properties remains at \$750,000.

The examination noted that the Facility reported the following underwriting losses for the three previous years:

2010	\$(150,111)
2009	\$(129,143)
2008	\$(130,267)

This trend continued in 2011, when IPFD reported an underwriting loss of \$395,554.

The examination noted the following factors that contributed to these losses:

- In 2006, to address the requirements of the property insurance market in Delaware, the Facility raised its underwriting limits to \$500,000. These increased underwriting limits make the Facility vulnerable to large fire claims, which have had a significant impact on the Fair Plan's underwriting results in 2009, 2010 and continuing in 2011.
- At the time of the 2005 examination, IPFD insured 461 properties located in the zip codes indicating proximity to the Delaware Atlantic Coastline. By year end 2010, that number of properties had increased to 559. More importantly, a significant number of the policies issued on Coastline properties offer the higher underwriting limits noted in the previous paragraph. With a large concentration of high limit policies located near the Atlantic Coastline, the Facility has considerable exposure in the case of hurricanes or major coastal storms.
- The Facility uses ISO Loss Costs to compile rates for residential and commercial risks. The examiner noted that ISO has made several filings reflecting decreases in Loss Costs in Delaware. These filings have served to decrease the Facility's premium volume while its loss exposures have increased significantly.

GROWTH OF THE COMPANY

The following information was obtained from the Facility's filed Annual Statements and covers the five year period since the previous examination:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets	<u>\$893,413</u>	<u>\$742,192</u>	<u>\$792,550</u>	<u>\$702,384</u>	<u>\$748,404</u>
Policyholder Surplus	<u>69,261</u>	<u>20,161</u>	<u>(49,696)</u>	<u>40,092</u>	<u>(63,795)</u>
Net Income	<u>(147,894)</u>	<u>(129,463)</u>	<u>(120,509)</u>	<u>75,982</u>	<u>59,687</u>
Direct Premiums	\$627,576	\$655,740	\$713,793	\$789,968	\$792,103
Assumed Premiums	0	0	0	0	0
Ceded Premiums	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Premiums	<u>\$627,576</u>	<u>\$655,740</u>	<u>\$713,793</u>	<u>\$789,968</u>	<u>\$792,103</u>

The Facility's premiums declined in each of the years under examination. That trend continued in 2011 when premiums written fell to \$591,766. In 2011, the Facility reported Net Income of \$(395,233).

ACCOUNTS AND RECORDS

From 2005 to 2009, the Facility's accounts and records were audited by the accounting firm of Smart & Associates. In 2010, the firm of Weiser Mazars, LLC performed the audit.

PARTICIPATION AND ASSESSMENTS

Each member shall participate in the writings, profits, losses and expenses of the Facility in any particular year in the same proportion that its respective premiums written during the second preceding calendar year relate to the total of such premiums written by

Insurance Placement Facility of Delaware

all members during said second preceding year. The participation of all members shall thus be determined annually and shall be fixed for a period of one calendar year.

The Board of Directors shall determine the expense of operating the Facility and any cash reserves required to be maintained and shall from time to time assess each member its share of the expenses and such reserves in accordance with its participation in the Facility and in accordance with the laws of the State of Delaware. The Board of Directors may set a minimum assessment to be paid by any member. Each member shall make a payment of any assessment within thirty days of the assessment.

The following closeouts and assessments were made during the period under examination:

2006	Closed	2001	\$14,188
	Closed	2002	(88,879)
	Closed	2003	(185,068)
	Assessed	2004	59,759
	Assessed	2006	<u>200,000</u>
	Net Amount		<u>0</u>
2008	Closed	2004	\$75,543
	Closed	2005	(214,407)
	Closed	2006	(189,248)
	Assessed	2007	200,000
	Assessed	2008	<u>478,112</u>
	Net Amount		<u>\$350,000</u>
2010	Closed	2007	\$(95,189)
	Closed	2008	(430,883)
	Assessed	2009	150,000
	Assessed	2010	<u>626,072</u>
	Net Amount		<u>\$250,000</u>

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Facility, as determined by this examination, as of December 31, 2010:

Assets
 Liabilities, Surplus and Other Funds
 Statement of Income
 Capital and Surplus Account
 Reconciliation of Surplus for the period since the previous examination
 Analysis of Financial Statement Changes resulting from the examination

ASSETS

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>	<u>Note</u>
Cash, cash equivalents, short-term investments	\$ 814,260		\$ 814,260	1
Investment income due and accrued				
Uncollected premiums and agents' balances in the course of collection	1,411	\$ 562	849	
Receivable from parent, subsidiaries and affiliates (Assessment Receivable)	78,304		78,304	
Aggregate write-ins for other than invested assets	<u>25,297</u>	<u>25,297</u>	<u>-</u>	
Totals	\$ <u>919,272</u>	\$ <u>25,859</u>	\$ <u>893,413</u>	

LIABILITIES, CAPITAL & SURPLUS

		<u>Note</u>
Losses	\$ 130,478	2
Loss Adjustment Expenses	5,287	
Other Expenses	16,107	
Unearned premiums	321,547	
Advance premiums	17,237	
Amounts withheld for account of others	4,512	
Drafts outstanding	111,775	
Post Retirement Benefits	69,219	
Pension	<u>147,990</u>	
Total Liabilities	<u>\$ 824,152</u>	
Unassigned funds	<u>69,261</u>	
Surplus as regards policyholders	<u>\$ 69,261</u>	
Total Liabilities and Surplus as Regards Policyholders	 <u>\$ 893,413</u>	

STATEMENT OF INCOME

Premiums earned	\$ 644,959
Deductions	
Losses incurred	342,520
Loss adjustment expenses incurred	63,910
Other underwriting expenses incurred	<u>388,640</u>
Total underwriting deductions	<u>795,070</u>
Net underwriting gain	(150,111)
Net investment gain	675
Miscellaneous income	<u>1,542</u>
Net income before federal taxes	(147,894)
Federal taxes incurred	<u>-</u>
Net income	<u><u>\$ (147,894)</u></u>
Surplus as regards policyholders-Prev Yr.	\$ 20,161
Net income	(147,894)
Change in non-admitted assets	(13,307)
Closeouts	(526,072)
Assessments	776,072
Change in Pension liability	(30,541)
Assessments/distributions charged off	<u>(9,158)</u>
Change in surplus as regards policyholders	<u>\$ 49,100</u>
Surplus as regards policyholders-current	<u><u>\$ 69,261</u></u>

The reconciliation below uses the 2005 examination amount for Surplus as Regards Policyholders.

RECONCILIATION OF SURPLUS SINCE THE PREVIOUS EXAMINATION

Surplus as Regards Policyholders- December 31, 2005	\$ (142,450)
Net Income	(262,197)
Change in non-admitted assets	(24,338)
Closeouts	(1,113,943)
Assessments	1,713,943
Change in pension	(86,939)
Charge-offs	26,631
Prior Examination Adjustments and Misc.	<u>(41,446)</u>
Change in Surplus as Regards Policyholders	\$ 211,711
Surplus as Regards Policyholders-December 31, 2010	<u>\$ 69,261</u>

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

There were no financial adjustments to the Facility's financial statements as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Cash and Short-Term Investments **\$814,260**

Due to the Facility's recent claims experience, all invested assets are maintained in cash or similar liquid assets. The balance is accepted as reported.

Note 2. Losses **\$ 130,478**
Loss Adjustment Expenses **\$ 5,287**

The Facility reported the following at December 31, 2010:

Insurance Placement Facility of Delaware

<u>Losses</u>	
Reported Unpaid Losses-Direct	\$ 128,978
Incurred But Not Reported (IBNR)	<u>1,500</u>
Net Losses Unpaid	<u>\$130,478</u>
<u>Loss Adjustment Expenses</u>	
Adjusting and Other Unpaid	\$ <u>5,287</u>
Net Loss Adjustment Expense	<u>\$ 5,287</u>

The Facility is exempt from filing an actuarial report with the Delaware Insurance Department. The examiner tested the Company's paid and unpaid Loss and Loss Adjustment Expense data and noted no exceptions. The examiner did note two areas that are in need of correction or improvement:

- 1) The Facility uses a formula to calculate its liability for Incurred But Not Reported Losses. The formula is based on past experience of the Facility, and in some of the prior years the Facility reported no or minimal IBNR. This formula therefore produced an IBNR amount of \$1,500 for year end 2010. The examiner noted the Company's IBNR liability was deficient for December 31, 2010 but this deficiency was offset by a redundancy in the liability for Reported Losses. The Facility raised its underwriting limits in 2006 to \$500,000 for residential risks and has written a significant number of policies at the higher underwriting limits. Therefore:

It is recommended that the Facility review its Incurred But Not Reported reserving methodology to give greater weight to the higher underwriting limits offered by IPFD.

SSAP#55, paragraph 8, requires that insurers accrue a liability for all of the estimated ultimate costs of settling a claim. The Facility does not include a liability for Unallocated Loss Adjustment Expenses in its accrual for Loss Adjustment Expenses.

Unallocated Loss Adjustment Expenses include the costs of maintaining the Facility's claims department. Because the estimated amount to be accrued would be below examination materiality, no adjustment will be made to the financial statements of this report. However, the following recommendation will be made:

It is recommended that the Facility include in the liability for Adjusting and Other Loss Adjustment Expenses a provision for Unallocated Loss Adjustment Expenses.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The previous examination made one recommendation. The current examination noted sufficient compliance with the previous examination's finding.

SUMMARY OF RECOMMENDATIONS

The Company's attention is directed to the following:

It is recommended that the Facility review its Incurred But Not Reported reserving methodology to give greater weight to the higher underwriting limits offered by IPFD.

It is recommended that the Facility include in the liability for Adjusting and Other Loss Adjustment Expenses a provision for Unallocated Loss Adjustment Expenses.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Insurance Placement Facility of Delaware

	December 31, 2010 <u>Examination</u>	December 31, 2005 <u>Examination</u>	Changes <u>Increase/(Decrease)</u>
Assets	\$893,413	\$703,245	\$190,168
Liabilities	\$824,152	\$845,695	(\$21,543)
Surplus as Regards Policyholders	\$69,261	(\$142,450)	\$211,711

Respectfully submitted,



James J. Blair CFE, CPA
Examiner In-Charge
State of Delaware